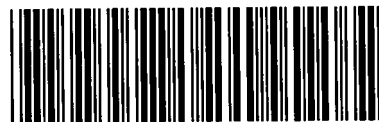


Company Registration No. 05259225 (England and Wales)

MODERN SCHOOLS (BARNSELEY) LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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MODERN SCHOOLS (BARNSELEY) LIMITED

COMPANY INFORMATION

Directors	Mr A Watson Mr B Dean
Secretary	Vercity Social Infrastructure (UK) Limited
Company number	05259225
Registered office	8 White Oak Square London Road Swanley Kent BR8 7AG
Auditor	BDO LLP 55 Baker Street London W1U 7EU

MODERN SCHOOLS (BARNSELEY) LIMITED

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MODERN SCHOOLS (BARNSELEY) LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

The directors present their annual report and audited financial statements for the year ended 31 December 2020.

Principal activities

The company's principal activity is that of a Private Finance Initiative Concessionaire for the Modern Schools (Barnsley) Schools Project, under the terms of a Project Agreement dated 4 May 2005.

The Project Agreement requires the company to finance, design, develop, construct and then maintain and part operate thirteen primary schools in the Barnsley area. The concession is expected to continue until 31 May 2032.

Work on the construction of the schools commenced in May 2005. Construction was completed in June 2007.

There have not been any significant changes in the company's principle activities in the year under review.

Results and dividends

The results for the year are set out on page 7.

Interim dividends were paid amounting to £898,000 (2019: £1,156,000). The directors do not recommend payment of a final dividend.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Mr A Watson

Mr B Dean

Going concern

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements. Further details regarding the adoption of the going concern basis can be found in the accounting policies in the notes to the financial statements.

COVID-19 risk

The company is exposed to the COVID-19 risk as a result of the inherent uncertainty around the impact of the pandemic on UK society and economy. Whilst the company itself is not considered to be significantly exposed, subcontractors which it engages with are considered to have exposure in relation to labour and the ability to continue to perform required services. The company is aware of the Government guidance for public bodies on payment to suppliers to ensure service continuity during and after the coronavirus outbreak, which provides additional assurance. Nevertheless, performance risk under the Project Agreement and related contracts are passed on to the service provider. The obligations of the service provider is underwritten by its parent company guarantee. Due to the evolving nature of the risk, the Board continue to actively monitor developments.

Brexit

The company is exposed to Brexit risk as a result of the inherent uncertainty around the UK's exit from the European Union. Whilst the company itself is not considered to be significantly exposed, subcontractors which the company engages with are considered to have exposure in relation to labour and the cost of supplies. Performance risk under the Project Agreement and related contracts are passed on to the service provider. The obligations of the service provider is underwritten by its parent company guarantees. Due to the evolving nature of the risk, the board continue to actively monitor developments.

Qualifying third party indemnity provisions

Qualifying third party indemnity provisions for the benefit of the directors of the company have been made during the year. These provisions remain in force at the reporting date.

MODERN SCHOOLS (BARNSELEY) LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

Financial risk management objectives and policies

Liquidity Risk

The company manages its cash and borrowing requirements in order to maximise interest income and minimise interest expense, whilst ensuring the company has sufficient liquid resources to meet the operating needs of the business. At the start of the PFI contract, the company negotiated debt facilities with an external party to ensure that the company has sufficient funds over the life of the PFI concession.

Interest Rate Risk

The company's borrowings expose it to cash flow risk primarily due to the financial risks of changes in interest rates. The company uses interest rate swaps to manage the risk and reduce its exposure to changes in interest rates.

Credit Risk

The company's principal financial assets are cash, finance debtor and trade and other receivables. The company's credit risk is primarily attributable to its trade receivables which are with one counterparty, although in the opinion of the board of directors this risk is limited as the receivables are with a local government authority.

Lifecycle Risk

Lifecycle expenditure is the main risk to the business. The risk being that the allowance for lifecycle costs factored into the financial model is insufficient to cover future lifecycle expenditure, thus resulting in lower profitability and reduced distributions. This is mitigated by regular lifecycle reviews undertaken by the management services provider and a detailed lifecycle review performed every five years.

Future developments

The directors are not aware, at the date of this report, of any major changes in the company's activities in the next year.

Auditor

BDO LLP were appointed as auditor to the company and in accordance with section 485 of the Companies Act 2006, a resolution proposing that they be re-appointed will be put at a General Meeting.

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

On behalf of the board



Mr B Dean

Director

25 June 2021

MODERN SCHOOLS (BARNSELEY) LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2020

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

MODERN SCHOOLS (BARNSELEY) LIMITED

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF MODERN SCHOOLS (BARNSELEY) LIMITED

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Modern Schools (Barnsley) Limited (the 'company') for the year ended 31 December 2020 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of our audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

MODERN SCHOOLS (BARNSELEY) LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF MODERN SCHOOLS (BARNSELEY) LIMITED

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption in preparing the directors' report and take advantage of the small companies exemption from the requirement to prepare a strategic report.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We obtained an understanding of the legal and regulatory framework applicable to the entity and the industry in which it operates. We considered the significant laws and regulations to be Companies Act 2006 and the applicable accounting standards.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to management bias in accounting estimates and posting inappropriate journal entries to manipulate the fair value of the Company's assets.

MODERN SCHOOLS (BARNSELEY) LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF MODERN SCHOOLS (BARNSELEY) LIMITED

Audit procedures performed by the engagement team included:

- We considered the processes and controls that the company has established to address risks identified, or that otherwise prevent, deter and detect fraud and how management monitors those processes and controls;
- We challenged assumptions and judgements made by management in areas involving significant estimates, with the key sources of estimation identified as the determination of service margins and lifecycle costs;
- We performed substantive testing on account balances and transactions, which were considered to be a greater risk of susceptibility to fraud;
- We targeted journal entry testing based on identified characteristics the audit team considered could be indicative of fraud, as well as a focus on large and unusual transactions based upon our knowledge of the business;
- We made enquiries of Management, those charged with governance and those responsible for legal and compliance procedures as to whether there was any correspondence from regulators in so far as the correspondence related to financial statements; and
- We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

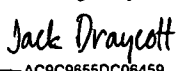
Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:



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Jack Draycott (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

London

25 June 2021

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BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

MODERN SCHOOLS (BARNSELEY) LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

		2020	2019
	Notes	£'000	£'000
Turnover	3	5,998	5,728
Cost of sales		(4,717)	(4,612)
Gross profit		<u>1,281</u>	<u>1,116</u>
Interest receivable and similar income	7	1,877	2,012
Interest payable and similar expenses	8	(1,486)	(1,610)
Profit before taxation		<u>1,672</u>	<u>1,518</u>
Tax on profit	9	(216)	(135)
Profit for the financial year		<u>1,456</u>	<u>1,383</u>
Other comprehensive income			
Cash flow hedges (loss)/gain arising in the year	14	(2)	172
Tax relating to other comprehensive income	9	90	(29)
Total comprehensive income for the year		<u><u>1,544</u></u>	<u><u>1,526</u></u>

The Statement of Comprehensive Income has been prepared on the basis that all operations are continuing operations.

MODERN SCHOOLS (BARNSELEY) LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2020

		2020		2019	
	Notes	£'000	£'000	restated £'000	£'000
Current assets					
Debtors falling due after more than one year	11	18,659		19,219	
Debtors falling due within one year	11	1,894		1,717	
Short term deposits	12	-		1,500	
Cash at bank and in hand		3,199		2,531	
		<u>23,752</u>		<u>24,967</u>	
Creditors: amounts falling due within one year	13	<u>(4,131)</u>		<u>(3,994)</u>	
Net current assets			19,621		20,973
Creditors: amounts falling due after more than one year	14		(22,279)		(24,283)
Provisions for liabilities					
Deferred tax liability	16	<u>51</u>	(51)	<u>45</u>	(45)
Net liabilities			<u>(2,709)</u>		<u>(3,355)</u>
Capital and reserves					
Called up share capital	17		10		10
Hedging reserve	17		(3,644)		(3,732)
Profit and loss account	17		925		367
Total shareholders' funds			<u>(2,709)</u>		<u>(3,355)</u>

These financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime.

The financial statements were approved by the board of directors and authorised for issue on 25 June 2021 and are signed on its behalf by:



Mr B Dean
Director

Company Registration No. 05259225

MODERN SCHOOLS (BARNSELEY) LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	Share capital £'000	Hedging reserve £'000	Profit and loss account £'000	Total £'000
Balance at 1 January 2019		10	(3,875)	140	(3,725)
Year ended 31 December 2019:					
Profit for the year		-	-	1,383	1,383
Other comprehensive income:					
Cash flow hedges gains		-	172	-	172
Tax relating to other comprehensive income		-	(29)	-	(29)
Total comprehensive income for the year		-	143	1,383	1,526
Dividends	10	-	-	(1,156)	(1,156)
Balance at 31 December 2019		10	(3,732)	367	(3,355)
Year ended 31 December 2020:					
Profit for the year		-	-	1,456	1,456
Other comprehensive income:					
Cash flow hedges losses		-	(2)	-	(2)
Tax relating to other comprehensive income		-	90	-	90
Total comprehensive income for the year		-	88	1,456	1,544
Dividends	10	-	-	(898)	(898)
Balance at 31 December 2020		10	(3,644)	925	(2,709)

MODERN SCHOOLS (BARNSELEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

1 Accounting policies

Company information

Modern Schools (Barnsley) Limited is a private company limited by shares incorporated in England and Wales. The registered office is 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.

1.1 Accounting convention

These financial statements have been prepared in accordance with Section 1A of FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") as applicable to smaller entities and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £'000.

The financial statements have been prepared under the historical cost convention, modified to include certain financial instruments at fair value. The principal accounting policies adopted are set out below.

Amendments to FRS102: Interest rate reform

The company's hedged items and hedging instruments continue to be linked to Sterling LIBOR. The company has early adopted the transitional provisions set out in the amendments to FRS102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" Interest Rate Benchmark Reform, issued in December 2019, to those hedging relationships directly affected by IBOR reform. In accordance with these amendments, for the purpose of evaluating whether there is an economic relationship between the hedged items and the hedging instruments, the company assumes that the benchmark interest rate is not altered as a result of IBOR reform and can continue to apply hedge effectiveness throughout the transition period.

1.2 Going concern

The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts covering a period of at least 12 months from the date of approval of the financial statements which indicate that the company will have sufficient funds to meet its liabilities as they fall due for that period. Those forecasts are dependent on the underlying customer continuing to meet its obligations under the Project Agreement and the directors expect these amounts to be received even in severe but plausible downside scenarios. The company continues to provide the assets in accordance with the contract and are available to be used. As a result the company does not believe there is any likelihood of a material impact to the unitary payment. The directors have considered the potential impact of the emergence and spread of COVID-19, which includes the company's operating cash inflows which are largely dependent on the unitary charge payments. Throughout the pandemic and to date, all unitary charge payments have been received on time and in full and the directors expect this to continue.

MODERN SCHOOLS (BARNSELEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

1 Accounting policies

(Continued)

The directors have assessed the viability of its main sub-contractors and reviewed the contingency plans of the sub-contractors and are satisfied in their ability to provide the services in line with the contract without significant additional costs to the company, even in downside scenarios, due to the underlying contractual terms. To date, there has been no adverse impact on the services provided by the company or its subcontractors arising from COVID-19. However, in the unlikely event of a subcontractor failure, the company has its own business continuity plans to ensure that service provision will continue.

In addition, although the company is in a net liabilities position as at 31 December 2020 due to the fair value of the interest rate swaps, the directors have reviewed the company's forecasts and projections, taking into account future cash requirements and forecast receipts, which show that the company can continue to meet its debts as they fall due.

Consequently, the directors at the time of approving the financial statements have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

1.3 Turnover

Turnover is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Income received in respect of the service concession is allocated between revenue and capital repayment of, and interest income on, the PFI financial asset using the effective interest rate method. Service revenue is recognised as a margin on non-pass-through operating and maintenance costs.

Pass through income represents the direct pass through of recoverable costs, as specified in the Project Agreement.

Variation income relates to the recharge of costs incurred for the alteration of the facilities or the services provided, requested by the Authority.

1.4 Cash and cash equivalents

Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts.

Short term deposits comprise of deposits with a maturity of more than 3 months.

Cash and cash equivalents includes £1,083,000 (2019: £802,000) restricted from use in the business being held in the company's reserve accounts in line with the company's contractual obligations.

1.5 Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

MODERN SCHOOLS (BARNSELEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

1 Accounting policies

(Continued)

Basic financial assets

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

Loan and Receivables

Trade debtors, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

Impairment of financial assets

Financial assets, other than those held at fair value through profit or loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

MODERN SCHOOLS (BARNSELEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

1 Accounting policies

(Continued)

Basic financial liabilities

Basic financial liabilities, including creditors, bank loans and loans from fellow group companies, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Other financial liabilities

Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value through profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Derecognition of financial liabilities

Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

1.6 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.7 Derivatives

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to fair value at each reporting end date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset, whereas a derivative with a negative fair value is recognised as a financial liability.

The company does not hold or issue derivative financial instruments for speculative purposes.

1.8 Hedge accounting

The company designates certain hedging instruments, including derivatives, embedded derivatives and non-derivatives, as either fair value hedges or cash flow hedges. At the inception of the hedge relationship, the company documents the relationship between the hedging instrument and the hedged item along with risk management objectives and strategy for undertaking various hedge transactions. At the inception of the hedge and on an ongoing basis, the company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

MODERN SCHOOLS (BARNSELEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

1 Accounting policies

(Continued)

For derivatives that are designated and qualify as cash flow hedges, the effective portion of changes in the fair value of the hedge is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Any gain or loss previously recognised in other comprehensive income is reclassified to profit or loss when the hedge relationship ends. This occurs when the hedging instrument expires or no longer meets the hedging criteria, the forecast transaction is no longer highly probable, the hedged debt instrument is derecognised, or the hedging instrument is terminated.

1.9 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

1.10 Service Concession

The company is an operator of a Public Finance Initiative ("PFI") contract. Upon adopting FRS 102, the directors decided not to take the exemption available in section 35.10(i) regarding the accounting for service concession arrangements and have instead adopted section 34(c). In doing this, the Financial Asset was required to be re-calculated from the inception of the Project, in accordance with section 34(c), which gave rise to an adjustment on transition on 1 January 2014, and a further change during the year to 31 December 2014. The directors consider the Financial Asset to be a Basic Financial Instrument in line with section 11; the re-calculation of the Financial Asset was performed in line with the requirements of section 11.

During the operational phase income is allocated between interest receivable and the financial asset using a project specific interest rate. The remainder of the PFI unitary charge income is included within turnover in accordance as it fulfils its contractual obligations in respect of those services and in line with the fair value if the consideration receivable in respect of those services.

MODERN SCHOOLS (BARNSELEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

1 Accounting policies

(Continued)

1.11 Prior year restatement

The following reclassification of comparative information has been made to more appropriately reflect its nature:

Note 12 – Current asset investments

The amount classified as 'short term deposits' are deposit balances with a maturity of more than 3 months. The short term deposit balance of £1,500,000 was presented within cash at bank and in hand in the prior year, this was in error as the amount should have been presented as a short term deposit. The prior year comparatives have been restated to reflect this. The restatement has neither any impact on the profit and loss, nor the overall net liability of the company.

Notes 13 & 14 – Derivative financial instruments

The derivative financial instrument amounting to £898,000 presented within creditors: amounts falling due within one year was incorrectly presented within amounts creditors: amounts falling due after one year in the prior year. The prior year comparatives have been restated to reflect this. The restatement has neither any impact on the profit and loss, nor the overall net liability of the company.

2 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Critical judgements

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Hedge accounting

The directors consider the company to have met the criteria for cash flow hedge accounting. The company has therefore recognised fair value movements on derivatives in effective hedging relationships through other comprehensive income as well as the deferred tax thereon.

The Fair Value of the swaps recorded in the accounts are based on Mark to Market estimates provided by the Bank. It is expected that changes to the hedging instrument and the loan will be materially consistent and limited to the transition from LIBOR to the new benchmark, as both the loan and the swap will be transitioned to the new benchmark at similar times in a broadly matching fashion.

MODERN SCHOOLS (BARNSELEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

2 Judgements and key sources of estimation uncertainty

(Continued)

Key sources of estimation uncertainty

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows.

Valuation of derivative financial instruments

The directors use their judgement in selecting a suitable valuation technique for derivative financial instruments. All derivative financial instruments are valued at the mark to market valuation provided by the derivative counterparty. In these cases, the company uses valuation techniques to assess the reasonableness of the valuation provided by the derivative counterparty. These techniques use a discounted cash flow analysis based on market observable inputs derived from similar instruments in similar and active markets. The fair value of derivative financial instruments at the balance sheet date was a liability of £4,500,000 (2019: £4,497,000 liability). The directors do not consider the impact of own credit risk to be material.

Service concession arrangement

As disclosed in Note 1, the company accounts for the project as a service concession arrangement. The directors use their judgement in selecting the appropriate financial asset rate to be applied in order to allocate the income received between revenue, and capital repayment of and interest income on the financial asset; and also the service margin that is used to recognise service revenue. The directors have also used their judgement in assessing the appropriateness of the future maintenance costs that are included in the company's forecasts. The directors will continue to monitor the condition of the assets and undertake a regular review of maintenance spend.

3 Turnover

An analysis of the company's turnover is as follows:

	2020 £'000	2019 £'000
Turnover analysed by class of business		
Service revenue	4,931	4,574
Pass through and variation revenue	1,067	1,154
	<u>5,998</u>	<u>5,728</u>

4 Auditor's remuneration

	2020 £'000	2019 £'000
Fees payable to the company's auditor and associates:		
For audit services		
Audit of the financial statements of the company	14	23
	<u>14</u>	<u>23</u>
For other services		
Audit-related assurance services	3	-
	<u>3</u>	<u>-</u>

5 Employees

The company had no employees during the year (2019: nil).

MODERN SCHOOLS (BARNSELEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

6 Directors' remuneration

No directors received any remuneration for services to the company during the year (2019: nil).

7 Interest receivable and similar income

	2020 £'000	2019 £'000
Interest income		
Interest on bank deposits	6	23
Interest receivable on the finance debtor	1,871	1,989
	<u>1,877</u>	<u>2,012</u>

8 Interest payable and similar expenses

	2020 £'000	2019 £'000
Interest on financial liabilities measured at amortised cost:		
Interest on bank loans	1,169	1,269
Interest payable to group undertakings	296	318
	<u>1,465</u>	<u>1,587</u>
Other finance costs:		
Other interest	21	23
	<u>1,486</u>	<u>1,610</u>

9 Taxation

	2020 £'000	2019 £'000
Current tax		
UK corporation tax on profits for the current period	210	129
	<u></u>	<u></u>
Deferred tax		
Other adjustments	6	6
	<u></u>	<u></u>
Total tax charge	<u>216</u>	<u>135</u>

For the year ended 31 December 2020, the UK corporation tax rate of 19% is applied.

The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. The deferred tax asset as at 31 December 2020 has been calculated based on a rate of 19%.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. Since the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements.

MODERN SCHOOLS (BARNSELEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

9 Taxation

(Continued)

The actual charge for the year can be reconciled to the expected charge for the year based on the profit or loss and the standard rate of tax as follows:

	2020 £'000	2019 £'000
Profit before taxation	1,672	1,518
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%)	318	288
Adjustments in respect of prior years	(10)	(35)
Group relief	(98)	(124)
Deferred tax adjustments in respect of prior years	6	6
Taxation charge for the year	216	135

In addition to the amount charged to the profit and loss account, the following amounts relating to tax have been recognised directly in other comprehensive income:

	2020 £'000	2019 £'000
Deferred tax arising on:		
Revaluation of financial instruments treated as cash flow hedges	(90)	29

10 Dividends

	2020 Per share £	2019 Per share £	2020 Total £'000	2019 Total £'000
Interim paid	89.80	115.60	898	1,156

11 Debtors

	2020 £'000	2019 £'000
Amounts falling due within one year:		
Trade debtors	-	5
Finance debtor	1,772	1,666
Prepayments and accrued income	122	46
	1,894	1,717

MODERN SCHOOLS (BARNSELEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

11 Debtors (Continued)

		2020 £'000	2019 £'000
Amounts falling due after more than one year:	Notes		
Finance debtor		17,804	18,454
Deferred tax asset	16	855	765
		<u>18,659</u>	<u>19,219</u>
Total debtors		<u>20,553</u>	<u>20,936</u>

The deferred tax asset represents the tax asset recognised when recognising the swap liability.

12 Current asset investments

	2020 £'000	2019 £'000 as restated
Short term deposits	-	1,500
	<u>-</u>	<u>1,500</u>

Restricted cash

The company is obliged to keep separate cash reserves in respect of requirements in the company's funding agreement. This restricted cash balance, which is shown on the balance sheet within the 'short term deposits' balance, amounts to £nil at the year end (2019: £1,500,000).

13 Creditors: amounts falling due within one year

	Notes	2020 £'000	2019 £'000 as restated
Bank loans	15	1,870	1,868
Other borrowings	15	175	175
Trade creditors		247	185
Corporation tax		41	27
Other taxation		166	147
Derivative financial instruments		883	898
Accruals and deferred income		749	694
		<u>4,131</u>	<u>3,994</u>

Derivative financial instruments have been reclassified to separately disclose amounts payable within one year.

MODERN SCHOOLS (BARNSELEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

14 Creditors: amounts falling due after more than one year

	Notes	2020 £'000	2019 £'000 as restated
Bank loans	15	16,825	18,673
Other borrowings	15	1,837	2,011
Derivative financial instruments		3,617	3,599
		<u>22,279</u>	<u>24,283</u>

Amounts included above which fall due after five years are as follows:

	£'000	£'000
Payable by instalments	<u>10,467</u>	<u>12,619</u>

Derivative Financial Instruments

The swap has a fixed interest rate of 4.92% (Dexia Credit Local) and expires by November 2030. The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is three months' LIBOR. The company will settle the difference between the fixed and floating interest rate on a net basis.

All interest rate swap contracts are designated as hedges of variable interest rate risk of the company's floating rate borrowings. The hedged cash flows are expected to occur and to affect profit or loss over the period to maturity of the interest rate swaps.

The fair value of the derivative financial instrument above comprises the fair value of the interest rate swap designated in an effective hedging relationship. The change in fair value of the interest rate swap that was recognised in other comprehensive income in the period was a loss of £2,000 (2019: gain of £172,000).

15 Loans and overdrafts

	2020 £'000	2019 £'000
Bank loans	18,695	20,541
Other loans	2,012	2,186
	<u>20,707</u>	<u>22,727</u>
Payable within one year	2,045	2,043
Payable after one year	18,662	20,684
	<u>20,707</u>	<u>22,727</u>

The loans are secured by a fixed and floating charge over all the assets of the company and a charge over the shares of the company.

MODERN SCHOOLS (BARNSELEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

15 Loans and overdrafts

(Continued)

Bank loans

The company has loan facilities provided by a Dexia Credit Local and DZ Bank in order to finance the project.

The facility financing fees were capitalised and are amortised over the loan repayment period.

The loan is repayable in quarterly instalments payable in February, May, August and November based on an agreed percentage amount of the total facilities with the final instalment due on 30 November 2030.

Interest on the facility is charged at rates linked to LIBOR. The company has entered into fixed interest rate swaps to mitigate its interest rate exposure. The fixed interest rate on the Senior Term Facility, including all margins, is 4.92% + 0.95% margin.

The company's secured creditors have the benefit of first ranking charges granted by the company over the whole of its investments, undertaking, property, assets, insurances and rights under certain contracts, both present and future, together with a first ranking charge over all of the ordinary shares of the company and company's subordinated loan.

Subordinated Loan

At the year end the company owed £2,012,000 (2019: £2,186,000) in loans and accrued interest of £23,000 (2019: £25,000) to the ultimate parent company Innisfree Schools (Secondary) Limited. The subordinated debt is unsecured and is subject to interest at a rate of 13%. The debt is repayable by instalments from surplus funds to May 2032.

16 Deferred taxation

Deferred tax assets and liabilities are offset where the company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	Liabilities 2020 £'000	Liabilities 2019 £'000	Assets 2020 £'000	Assets 2019 £'000
Balances:				
Revaluations	51	45	855	765
	<u>51</u>	<u>45</u>	<u>855</u>	<u>765</u>
Movements in the year:				2020 £'000
Liability at 1 January 2020				720
Credit to profit or loss				(6)
Effect of change in tax rate - other comprehensive income				90
Liability at 31 December 2020				<u>804</u>

The deferred tax asset in relation to the interest rate swap liability is expected to affect profit or loss over the period to maturity of the interest rate swap.

MODERN SCHOOLS (BARNSELEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

17 Share capital and reserves

	2020	2019	2020	2019
	Number	Number	£'000	£'000
Ordinary share capital				
Issued and fully paid				
Ordinary share capital of £1 each	10,000	10,000	10	10

Other reserves

The Company's other reserves are as follows:

The profit and loss account represents cumulative profits or losses net of dividends.

The hedging reserve represents the cumulative portion of gains and losses on hedging instruments deemed effective in hedging variable interest rate risk of recognised financial instruments. Amounts accumulated in this reserve are reclassified to profit or loss in the periods in which the hedged item affects profit or loss or when the hedging relationship ends.

18 Related party transactions

During the year the company's parent Modern Schools (Barnsley) Holdings Limited ('Holdings') was owned 100% by Innisfree Schools (Secondary) Limited. Innisfree Schools (Secondary) Limited was owned 34.66 by Innisfree PFI Secondary Fund 2 LP and Innisfree PFI Secondary Fund LP. The funds were owned through their nominee Innisfree Nominees Limited. Innisfree Nominees Limited is managed by Innisfree Group Limited.

Under the terms of Shareholder and Management Agreements, Innisfree Group Limited provide the company with its directors. Directors fees paid to Innisfree Limited in the period were £43,000 (2019: £39,000). As at 31 December 2020 trade creditors and accruals included £24,000 (2019: £24,000) due to Innisfree Limited.

During the year the company entered into transactions with its management service provider Vercity Management Services Limited (VMS), some services are also provided by Vercity Social Infrastructure (UK) Ltd (VSI). Vercity Holdings Limited, the parent company of both VMS and VSI, is invested with funds under the management of Innisfree Limited, who also manage the funds invested in Modern Schools (Barnsley) Holdings Limited.

The value of services provided by VMS was £222,000 (2019: £226,000) and VSI £3,000 (2019: £3,000). As at 31 December 2020 £nil (2019: £4,000) due to VMS and £nil (2019: £nil) due to VSI remains outstanding and is included in trade creditors

As at 31 December 2020 the company owed £2,012,000 (2019: £2,186,000) under a subordinated loan agreement to the parent company's shareholders (disclosed within bank loans & borrowings in note 13 & 14). During the year ended 31 December 2020 the company incurred £279,000 (2019: £301,000) in respect of subordinated interest. As at 31 December 2020 £23,000 (2019: £25,000) was due to the shareholders, Innisfree PFI Fund 2 LP and Innisfree Secondary Fund, in proportion to their shareholdings (disclosed within note 13), in respect of subordinated interest and is included in other creditors.

MODERN SCHOOLS (BARNSELEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

19 Ultimate controlling party

The immediate parent company is Modern Schools (Barnsley) Holdings Limited, a company registered in England and Wales. The registered office is 8 White Oak Square, London Road, Swanley, Kent, England, BR8 7AG. Copies of the accounts are available from Companies House, Crown Way, Cardiff, CF14 3UZ.

Modern Schools Barnsley (Holdings) Limited is 100% owned by Innisfree Schools (Secondary) Ltd. Innisfree Schools (Secondary) Ltd is owned by Innisfree PFI Secondary Fund Ltd (66%) and Innisfree Secondary Fund 2 Ltd (34%). Each of the shareholders holds its shareholdings as a long term investment. The Directors consider Innisfree Schools (Secondary) Ltd to be the ultimate controlling party.

These accounts do not get consolidated into any further group of companies.